

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 SP-02 AID-05 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 DODE-00 PA-02 PRS-01 L-03 H-02 IO-10 FEA-01

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TAGS: EFIN, EINV, AR, EIND

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

A) STATE 165596; B) STATE 197406; C) BUENOS AIRES 2976,
APRIL 25, 1974

1. FOLLOWING NARRATIVE IN RESPONSE TO REQUEST FOR STATEMENT
ON FOREIGN INVESTMENT CLIMATE CONTAINED REF A. INVESTMENT
STATISTICS REMAIN SAMEAS THOSE CONTAINED REF C.

2. TEXTUAL STATEMENT ON FOREIGN INVESTMENT CLIMATE:
"THE FOREIGN INVESTMENT CLIMATE IN ARGENTINA IS NOT FAVORABLE
AT THE PRESENT TIME. A COMBINATION OF RESTRICTIVE
GOVERNMENT LAWS AND POLICIES, SERIOOUS ECONOMIC PROBLEMS,
AND POLITICAL INSTABILITY HAVE BROUGHT NEW FOREIGN INVEST-
MENT INFLOWS TO A VIRTUAL HALT.

"THE FOREIGN INVESTMENT LAW OF NOVEMBER 1973 IS THE MOST
IMPORTANT LEGISLATION ON THE BOOKS COVERING FOREIGN INVESTMENT.
IT IS QUITE RESTRICTIVE, AND PROVIDES FOR EXTENSIVE
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GOVERNMENT CONTROL. THE LAW EXCLUDES FOREIGN INVESTMENT - DEFINED

AS OVER 20 PER CENT OWNERSHIP - FROM CERTAIN SECTORS AND ESTABLISHES LIMITS ON PROFIT AND CAPITAL REPATRIATION. IN SEPTEMBER 1974, THE GOA PASSED ANOTHER IMPORTANT LAW COVERING TECHNOLOGY TRANSFER FROM ABROAD (PATENTS, ROYALTIES, TRADE MARKS, TECHNICAL SERVICES, ETC.). UNDER THE LAW, ALL TECHNOLOGY CONTRACTS MUST BE REGISTERED WITH THE NATIONAL INSTITUTE OF INDUSTRIAL TECHNOLOGY (INTI) AND APPROVED BY THE GOA. CRITERIA FOR APPROVAL ARE CONTAINED IN THE LAW ITSELF.

"IN PRACTICE, THE ABOVE FOREIGN INVESTMENT LEGISLATION HAS TENDED TO FRIGHTEN AWAY POTENTIAL FOREIGN INVESTORS AND, IN ADDITION, HAS CREATED NUMEROUS ADMINISTRATIVE PROBLEMS. VIRTUALLY ALL FOREIGN COMPANIES ALREADY OPERATING IN ARGENTINA HAVE OPTED NOT TO COME UNDER THE PROVISIONS OF THE NEW LAW - EVEN THOUGH THEY MUST THEREBY PAY A SPECIAL TRANSFER TAX ON PROFIT REMITTANCE OF UP TO 40 PER CENT. THEY HAVE BEEN CONCERNED IN PARTICULAR OVER A PROVISION WHICH ENABLES THE GOVERNMENT TO NEGOTIATE A PROGRAM FOR TRANSFORMING A FOREIGN COMPANY INTO A NATIONAL ONE. ON SEVERAL OCCASIONS, GOA OFFICIALS HAVE MADE STATEMENTS FAVORING SOME LIBERALIZATION OF THE FOREIGN INVESTMENT REGIME, BUT THUS FAR NO NEW MEASURES HAVE BEEN ADOPTED.

"ARGENTINA PROVIDES NO SPECIQL INCENTIVES TO ATTRACT FOREIGN INVESTMENT - IN FACT FOREIGN COMPANIES MAY OPERATE AT A DISADVANTAGE VIS-A-VIS LOCAL ENTITIES. FOR EXAMPLE, THE CENTRAL BANK RESTRICTS LOCAL CREDIT TO FOREIGN COMPANIES. LOCAL MONEY MARKETS ARE ERRATIC AND MEDIUM AND LONG-TERM LOCAL FINANCING IS DIFFICULT TO OBTAIN. THERE EXISTS A LIBERAL INDUSTRIAL PROMOTION LAW (NO. 20,560 OF DECEMBER 12, 1973) BUT FOREIGN COMPANIES ARE LARGELY EXCLUDED FROM ITS BENEFITS. A SUCCESSION OF TAX RULINGS HAVE NOT FAVORED THE INTERESTS OF FOREIGN COMPANIES. ONE IN PARTICULAR WHICH CAUSES CONCERN MAKES THE PAYMENT OF ROYALTY, INTEREST AND CERTAIN OTHER CHARGES BETWEEN SUBSIDIARY AND PARENT A DISTRIBUTION OF PROFIT RATHER THAN A DEDUCTIBLE EXPENSE FOR LOCAL TAX PURPOSES.

"ECONOMIC PROBLEMS ARE SERIOS AND ADVERSELY AFFECT THE INVESTMENT CLIMATE. DOMESTICALLY, ARGENTINA NOW FACES SOARING INFLATION (OVER 200 PER CENT FOR 1975) AND RECESSION TRENDS. BALANCE OF PAYMENTS CONDITIONS HAVE UNCLASSIFIED

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BECOME EXTREMELY DFFICULT AND GROSS FOREIGN EXCHANGE RESERVES HAVE DECLINED TO LOW LEVELS. AS A RESULT, IMPORTS ARE LIKELY TO BE TIGHTLY RESTRICTED OVER THE IMMEDIATE FUTURE AND CAPITAL CONTROLS WILL REMAIN TIGHT. SINCE 1971, ROYALTY AND PROFIT REMITTANCES MAY ONLY BE MADE VIA SPECIAL EXTERNAL BONDS. PRICE CONTROLS IN RECENT YEARS HAVE REDUCED PROFIT LEVELS ADVERSELY AFFECTING PRODUCTION AND INVESTMENT.

"IN ARGENTINA, THERE IS A STRONG CURRENT FAVORING MORE PUBLIC ACTIVITY AND CONTROL OVER PRIVATE ENTERPRISE. THE GOVERNMENT HAS INITIATED NATIONALIZATION PROCEDURES TO EXPROPRIATE CERTAIN FOREIGN INTERESTS IN SEVERAL SECTORS INCLUDING PETROLEUM, PUBLIC SERVICES AND BANKING. REPORTEDLY, THERE ARE A NUMBER OF "ARGENTINIZATION" REQUESTS UNDER REVIEW BY THE GOVERNMENT, I.E. FOREIGN COMPANIES WISHING TO SELL TO LOCAL ARGENTINE INTERESTS. HOWEVER, THUS FAR THE GOA HAS NOT DETERMINED AND APPROVED THE AMOUNTS OF REPATRIABLE CAPITAL INVOLVED, THUS IN EFFECT PREVENTING EXISTING FOREIGN INVESTMENT FROM LEAVING THE COUNTRY.

"ARGENTINE LABOR UNIONS ARE AMONG THE MOST POWERFUL IN THE WORLD. LABOR INDISCIPLINE AND ABSENTEEISM HAVE HURT PRODUCTIVITY THIS YEAR. BASIC LABOR REGULATIONS ARE CODIFIED IN THE LAW OF CONTRACTS OF SEPTEMBER 1974.

"WHILE THE CURRENT SITUATION IS NOT FAVORABLE, ARGENTINA SHOULD BY NO MEANS BE WRITTEN OFF BY PROSPECTIVE FOREIGN INVESTORS. THE COUNTRY HAS GREAT AGRICULTURAL WEALTH, IS NEARLY SELF-SUFFICIENT IN PETROLEUM PRODUCTION, AND THUS ENJOYS EXCELLENT PROSPECTS FOR LONGER TERM ECONOMIC GROWTH. MOREOVER, FAILURE TO MAINTAIN AND EXPAND EXISTING CAPITAL SUFFICIENTLY WILL NECESSARILY REQUIRE LARGE SCALE INVESTMENTS IN YEARS TO COME. CURRENTLY, THE MOST FAVORABLE INVESTMENT OPPORTUNITIES PROBABLY ARE JOINT VENTURE OPERATIONS WITH PUBLIC SECTOR ENTITIES FOR DEVELOPMENT OF BASIC INFRASTRUCTURE, I.E. PETROCHEMICALS, STEEL, ETC.

"AS OF MAY 31, 1975, OPIC'S MAXIMUM EXPOSURE IN ARGENTINA WAS \$159 MILLION FOR INCONVERTIBILITY, \$79 MILLION FOR EXPROPRIATION, AND \$58 MILLION FOR WAR, REVOLUTON AND INSURRECTION. NO NEW CONTRACTS FOR SUCH COVERAGE HAVE BEEN SIGNED SINCE APRIL 1970."

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